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Poultry and Products Annual

2018

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Report Highlights:
FAS/Canada projects record high Canadian broiler meat production in 2019, as solid Canadian demand sustains continued expansion in the ‘supply managed’ chicken sector. Forecasted strong 2018 production should push the 2019 Canadian import tariff rate quota to an estimated record-high 95,000 metric tons, the majority of which should continue to be supplied by the United States.

Keywords: Canada, CA18050, Poultry, Chicken

Commodities: Meat, Chicken

Note Regarding Reporting Change:

This report provides chicken meat estimates and forecasts for 2017-2019. The prior broiler meat series has been discontinued and will not be revised or updated in the future.

Official USDA data will be available via the PSD database (http://www.fas.usda.gov/psdonline) on October 11, 2018. The October data release will include a historical chicken meat series back to 1999. The broiler meat series will terminate with 2016 data.

Chicken meat is defined as meat of domestic fowl (Gallus gallus/Gallus domesticus) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

Executive Summary

- FAS/Canada forecasts continued sustained growth for 2019, with chicken meat production estimated to reach 1.33 million metric tons (MMT), or nearly 3 percent above the estimated 2018 level. Retail and food service demand for chicken meat remains solid.

- FAS/Canada estimates 2018 chicken meat production at 1.295 MMT, reflecting stronger than expected growth as the industry responded to sustained strong demand from a consumer population that is increasingly diverse, economically strong and seeking comparative cost savings relative to other proteins. 2018 chicken meat sector growth is expected to reach nearly 5 percent, a level not seen since the 1990s.

- Canadian chicken meat imports are regulated under a tariff rate quota (TRQ) that is calculated as a function of Canadian chicken meat production in the preceding calendar year. The imported chicken meat TRQ is projected to reach 90,000 MT in 2018 and 95,000 MT in 2019, both record highs.

- In addition to TRQ imports, Canadian poultry processing and further-processing companies are expected to import 76,000 MT of chicken meat in 2018 under Canada’s two import for re-export programs. Nearly all of the finished products produced under the auspices of these programs will be exported to the United States.

CHICKEN MEAT

NOTE: "NEW Post" data reflects Post's assessments and are NOT official USDA data.

CANADA Meat CHICKEN	2017 NEW Post Estimates	2018 NEW Post Estimates	2019 NEW Post Estimates
Beginning Stocks	43	46	55
Production	1,236	1,295	1,330
Total Imports	174	175	180
Total Supply	**1,453**	**1,516**	**1,565**
Total Exports	134	125	130
Total Dom. Consumption	1,273	1,336	1,385
Ending Stocks	46	55	50
Total Distribution	**1,453**	**1,516**	**1,565**

All data in 1,000 metric tons, carcass weight equivalent

Chicken Meat Production

FAS/Canada forecasts 2019 chicken meat production to rise 3 percent to 1.33 MMT on strong demand for broiler meat and continued relative price competitiveness across retail and food service sectors. FAS/Canada estimates 2018 chicken meat production reaching 1.295 MMT, growing 5 percent to meet robust demand domestic demand. In Canada, the chicken meat market is driven by broiler meat production, representing roughly 98 percent of the market. The balance is comprised of other chicken meat, mostly spent fowl (also called stewing hen).

Under Canada's supply management system, poultry farmers are not vertically integrated into the processing and further processing industries. A large number of independent chicken farmers, often relatively small family operations, supply live birds to processing companies. Production is tightly controlled through a quota system. Representatives of chicken producers, poultry processors, poultry further-processors and the food service sector make production decisions jointly, taking into account current and forecast data on a multitude of indicators, including: imports, stocks, retail and food service sales, wholesale and retail prices, competing protein prices, world production conditions, feed prices, exchange rates and domestic macroeconomic indicators. Then the Chicken Farmers of Canada (CFC), established under the Farm Products Agencies Act in 1979, allocates the total national quota volume for each 8-week production cycle to each of the ten producing provinces, where provincial-level organizations allocate the production quota to individual producers in the province based on their share of the total production quota. This system insulates Canadian chicken farmers from fluctuating feed costs and stabilizes chicken farm income.

Though CFC sets a minimum farm gate price, Canadian poultry processors have to price their products to the demands of the Canadian market, which limits processors' ability to pass on higher input costs. However, given higher than average chicken cutout values in 2018, FAS/Canada expects that processors' profit margins will remain positive into 2019.

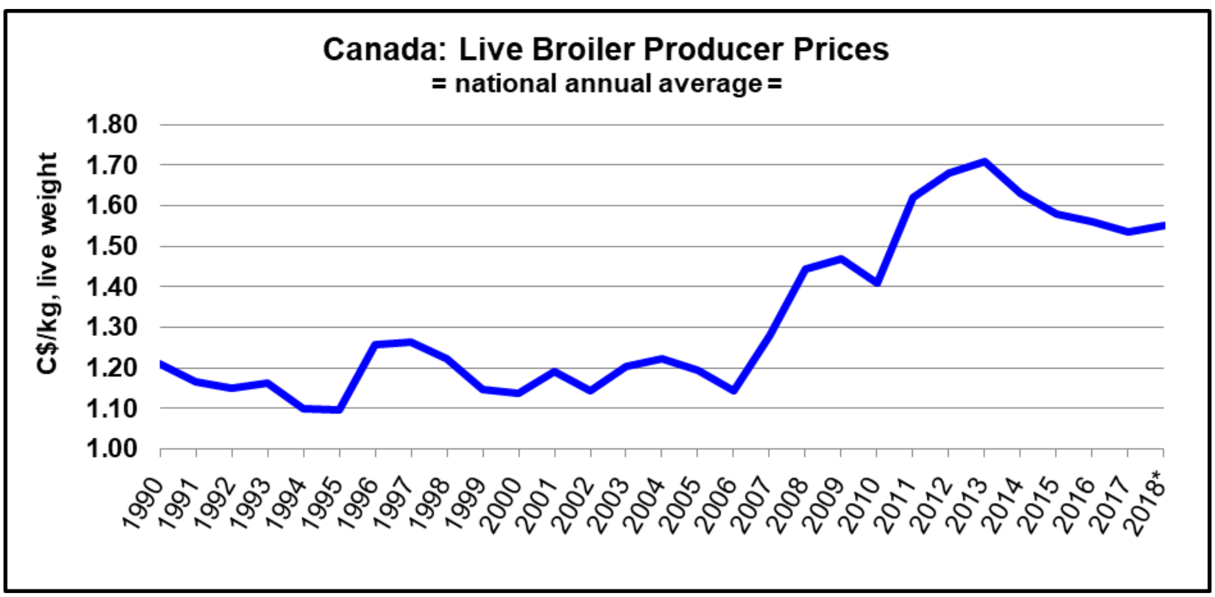
Consumption

Per capita chicken meat consumption had been relatively stagnant for nearly 15 years before picking up in 2014. FAS/Canada forecasts per capita consumption levels to continue to rise again in 2019, up to 36.5 kg from an estimated level of 36.2 kg in 2018. This recent consumption pattern reflects limited and higher-priced red meat supplies driving consumers towards abundantly available and competitively priced chicken.

Over the longer term, total domestic chicken consumption in Canada has tripled over the last 35 years, due in part to the country's steady population growth, which pushed total population up more than 50 percent from 24.5 million in 1980 to about 37.2 million in 2018. Over that time, Canadian preferences have shifted towards chicken primarily due to an increase in health awareness and the perception that chicken is leaner, and therefore healthier, than other meats. Increased chicken consumption can also be attributed to the proliferation of chicken-based fast food offerings as well as Canada's changing ethnic composition. Nearly 1 in 5 Canadians was born in another country, and Canada's immigrant population increasingly hails from countries with stronger dietary preferences for chicken rather than beef or pork. This increasing ethnic diversity has also expanded the range of food service outlets offering chicken-based dishes.

Prices

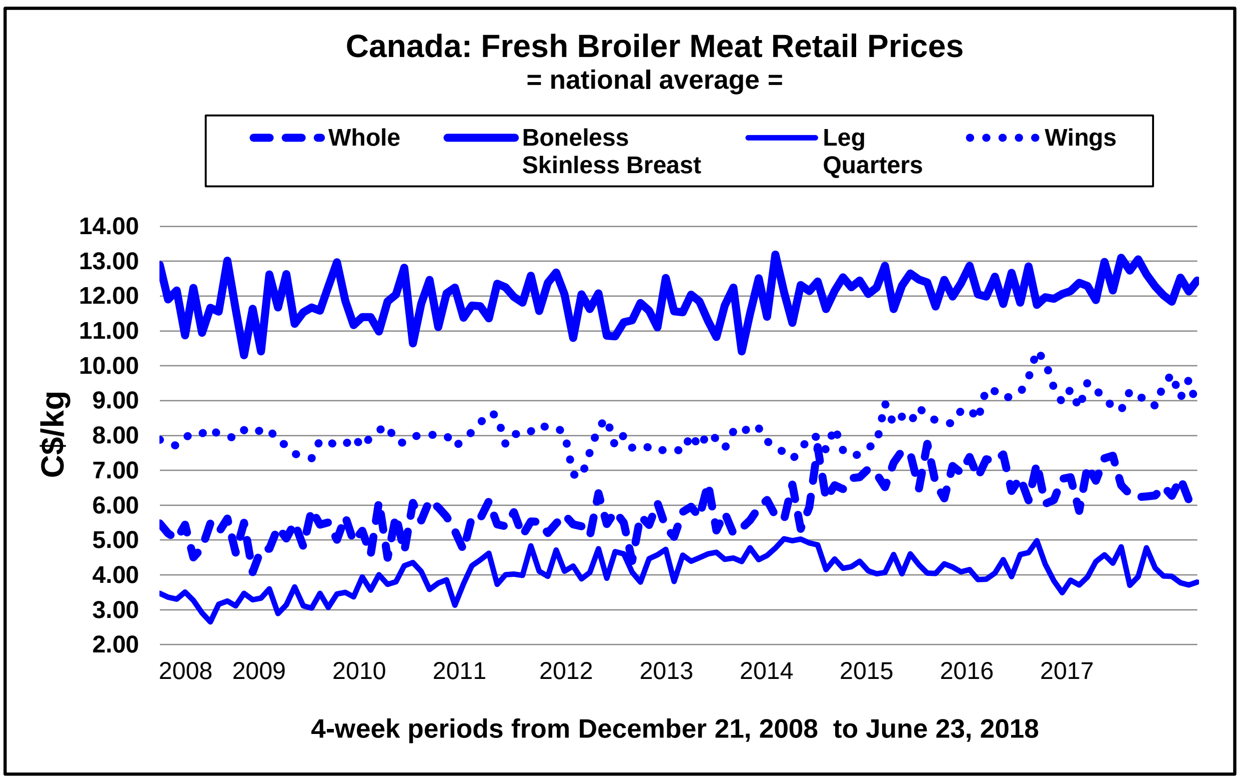
With the supply management system, chicken producers receive a fixed price for their live birds, which is based on production costs and determined every 8-week production cycle. Ontario is the largest chicken producing province in Canada, accounting for about one-third of the market, and therefore Ontario live bird prices are the basis for the calculation of prices in other provinces. Due to the supply management system, producer prices have remained remarkably stable over time, and only showed a more substantial increase over the 2008-2013 period, due to substantial increases in feed prices. Since 2014, prices have fallen, reflecting cheaper feed costs.



Source: Chicken Farmers of Canada / *FAS/Canada estimate

The Canadian supply management system only guarantees prices for producers. Wholesale and retail broiler meat prices are usually reflective of market conditions in terms of supply and demand. They are also reflective of consumer preferences for various chicken cuts, and of their quality and degree of transformation.

Similar to consumers in the United States, Canadian consumers tend to prefer white meat (breasts and wings) over dark meat (legs and thighs). The most expensive chicken cut is the fresh boneless skinless breast, widely used in restaurants and a preferred barbecue item for Canadians. Wings are particularly popular during the winter hockey season. Leg quarters have traditionally been the least expensive chicken cuts in groceries. However, leg quarter retail prices have risen steadily in the past several years as greater consumption of 'ethnic cuisine' and consumer price sensitivity has driven popularity and demand.



Source: Agriculture and Agri-Food Canada

Trade

Imports

For 2019, chicken meat imports are projected at 180,000 MT, up 5,000 MT from the estimated level of 175,000 MT for 2018. Under the supply management system, broiler meat imports are controlled and subject to a TRQ (for more information consult the policy section of this report), which is a function of the previous year's production level. Additional imports outside of the TRQ are concentrated under two import-to-re-export programs (see the next section). Market conditions in the United Sates also play a significant role in import decisions, since a large price differential between lower U.S. broiler meat prices and higher Canadian prices creates a strong incentive for importers to source U.S. chicken meat, especially under programs that provide a customs duty exemption (i.e., the import-to-re-export programs). Imports of spent fowl are not import controlled.

The United States is Canada's largest supplier of chicken meat, with a market share typically above 85 percent, followed by Brazil, at about 10 percent. In general, some Canadian importers are discouraged from importing Brazilian chicken, despite its lower cost, because it cannot be re-exported to the United States. As a very recent trend, Hungary has become a supplier of frozen wings to Canada (estimated at 5,000 MT for 2018), outcompeting Brazil on price.

Product Control for Brazilian Poultry
Since USDA does not permit imports of Brazilian chicken meat, the Canadian Food Inspection Agency (CFIA) has strict import procedures to ensure that Brazilian chicken meat in Canada does not enter the United States. Under CFIA regulations, chicken meat imported from Brazil may not be exported to the United States and may not be used in the manufacture of meat products exported to the United States. Canadian poultry slaughter and processing establishments that import chicken meat from Brazil are not eligible to export poultry meat products to the United States. In addition, chicken meat and meat products from non-eligible establishments must not enter Canadian establishments that have full export status for the United States. All Canadian establishments (including storage facilities) must segregate the meat on their premises by country of origin and destination.

Exports

FAS/Canada forecasts 2019 chicken meat exports at 130,000 MT, up 5,000 MT from the level estimated for 2018. In general, Canadian chicken exports fall into two broad categories. The majority represent the "re-export" side of Canada's imports-to-re-export programs, since exports are a requirement of the programs. The remaining volumes reflect 'genuine' exports, largely dark meat cuts to developing country markets. While market forces play a certain role in Canada's export levels, the timeframe for the re-export requirement under Canada's import-to-re-export programs also impacts the chicken meat export volumes in any given year.

Policy

Tariff Rate Quota[1]

Canada controls broiler meat imports under a TRQ. The minimum access level into Canada under its World Trade Organization (WTO) commitments is 39,844 MT, but Canada applies the higher access level negotiated under NAFTA, equal to 7.5 percent of the previous year's domestic broiler production as reported by Statistics Canada. For 2019, the global permit allowance is forecast to reach 95,000 MT based upon the estimated 2018 production. For 2018, the global chicken TRQ is 90,100 MT, based on the 2017 production level. Actual chicken imports under the TRQ may be slightly higher or lower than the allocated amounts, based on prevailing market conditions in each year.

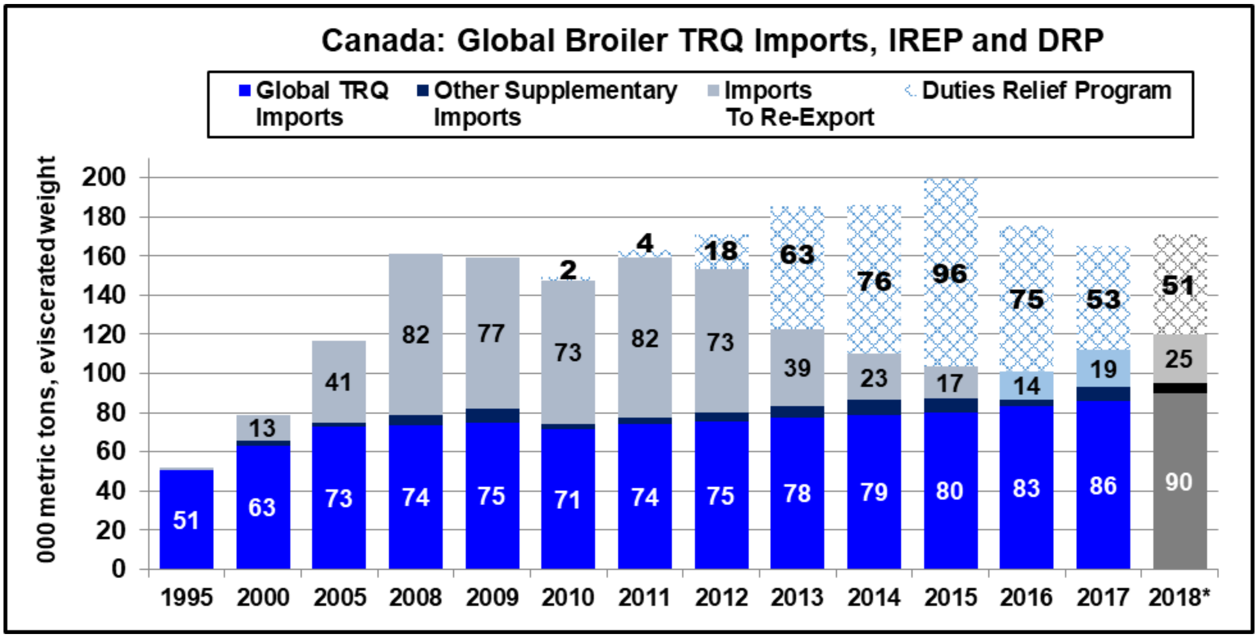
Under the TRQ, imports are subject to low "within access commitment" duty rates, while imports over the TRQ limit are subject to prohibitive "over access commitment" rates. Under NAFTA, within TRQ imports from the United States benefit from duty free treatment, while over-quota duties can reach 249 percent. For instance, within access imports of fresh boneless breasts from the United States enter Canada duty free, while over access imports would be subject to a 249 percent tariff. Comparatively, within access imports of frozen boneless breasts from Brazil are subject to a 5 percent tariff, and over access imports face the same 249 percent tariff.

Global Affairs Canada (GAC) issues supplementary import permits in the following situations:

- Resale Due to Domestic Market Shortages – no such permits were issued in 2017
- Dark Chicken Meat not Supplied by the Chicken Farmers of Canada's Domestic Supply Program – no such permits were issued in 2017
- Import-to-Compete Program – 6,250 MT of import permits were issued by GAC in 2017
- Import for Re-Export Program (IREP) – see chart below
- Test Marketing – no such permits were issued in 2017
- Extraordinary or Unusual Circumstances – no such permits were issued in 2017

Information on the chicken TRQ, supplementary imports and the process of importing broiler meat into Canada is located on the GAC website.

[1] The volumes of chicken meat mentioned in this section are expressed on a carcass weight equivalent basis based on Canada's international trade commitments, under which import permits are issued at a 1:1 ratio for bone-in chicken cuts and a 2:1 ratio for boneless cuts. Therefore, the quantities mentioned in this section are not directly comparable with the volumes mentioned in the rest of this report.



Source: GAC/DFATD, CBSA, Statistics Canada, FAS/Canada calculations / *FAS/Canada estimate

Imports for Re-Export Program

Traditionally, the majority of supplementary imports have been comprised of imports under the IREP program. The program requires that the resulting processed chicken product be exported, since diversion of product imported under IREP to the Canadian (domestic) market is prohibited. IREP helps Canadian poultry processors remain viable by giving them access to lower priced imported chicken, but offers little to Canadian consumers who pay high retail prices for chicken under the supply managed regime. Canadian proponents of the IREP program argue that it allows Canadian chicken processing plants to achieve economies of scale they could not otherwise achieve if restricted to available supplies of domestically produced chicken. IREP imports steadily grew over time, to the point where in 2008 they exceeded the import volumes under the global TRQ for the first time. IREP imports may be sourced from any country and re-exported to any country, but in practice almost the entire volume is imported from the United States, and exported back to the U.S. market.

Duties Relief Program

2012 marked the emergence of increased utilization of the Duties Relief Program (DRP) operated by the Canada Border Services Agency (CBSA). Details about the program can be found following this link. While in general the DRP is very similar to IREP, there are some differences that make DRP more appealing to importers. For instance, DRP requires the finished chicken meat products to be re-exported within four years, rather than the three-month limit under IREP. Imports of chicken under DRP peaked in 2015 and have since declined following a series of compliance verification activities in 2016 that revealed program non-compliance. FAS/Canada expects use of DRP will further decline into 2019, while some companies will return to the IREP program.

Government Consultations on IREP/DRP

The Canadian federal government launched consultations with industry stakeholders on potential changes to IREP and DRP in the spring of 2017, following an announcement in November 2016, to “address the concerns of import predictability and effective border controls for supply-managed commodities, while ensuring that Canadian processors who use dairy and poultry inputs can remain competitive in export markets.” The federal government is still reviewing input received from stakeholders, and there is no timeframe for a decision on possible changes to the programs.

FAS/Canada estimates 2018 imports under IREP and DRP at 76,000 MT, down from the 2015 record level of 113,000 MT.

Special Agricultural Safeguard

In 2008, Canada notified volume and price triggers that would be used to operationalize the WTO Special Agricultural Safeguard (SSG) for Canada’s supply-managed products, including broiler meat. The SSG allows additional duties to be triggered when import prices fall below a certain price level or exceed a certain volume. Canada published its most recent volumetric trigger levels in 2013; price triggers have not yet been published. In the event that import prices fall below trigger prices, the SSG would not automatically be activated, but the situation would be evaluated on a case-by-case basis requiring formal WTO notification and an Order in Council (i.e., federal cabinet approval). To date, Canada has never used the SSG mechanism.